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FM AMEMBASSY RABAT
TO RUEHC/SECSTATE WASHDC 2612
INFO RUEHCL/AMCONSUL CASABLANCA 1137
RUCPDOG/USDOC WASHDC
RHEBAAA/USDOE WASHDC
RUEHMD/AMEMBASSY MADRID 5320
RUEHAS/AMEMBASSY ALGIERS 3679
RUEHTU/AMEMBASSY TUNIS 8582
RUEHFR/AMEMBASSY PARIS 3961
RUEHNC/AMEMBASSY NOUAKCHOTT 2941

UNCLAS RABAT 000151

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DEPT FOR NEA/MAG AND EB/ESC
USDOC FOR ITA/MAC DAVID ROTH AND AARON BRICKMAN
USDOE FOR GINA ERICKSON AND YOUNES MASIKY
STATE PASS TO USAID FOR JENNIFER RAGLAND

E.O. 12958: N/A

TAGS: [ENRG](#) [ECON](#) [SENV](#) [MO](#)

SUBJECT: LIBERALIZATION OF MOROCCO'S ELECTRICITY SECTOR

REF: 05 RABAT 2311

11. SUMMARY: Morocco is opening its electricity sector to private operators, eliminating restrictions on who can generate and sell electricity to whom, and at what price. Private producers will be able to sell power to any client - including in Europe - through an electrical interconnection with Spain. Morocco and Spain are doubling the capacity of the undersea link between them, which will help to further integrate the Moroccan power market with that of Europe. With these reforms the GOM hopes to attract the investment needed to keep up with rapid growth in Morocco's energy demand, and bring prices closer in line with those on world markets. END SUMMARY.

THE SECTOR

12. Until 1994, the state was the sole producer of electricity. Since then, private firms have been allowed to generate power under license for sale exclusively to the Moroccan National Electricity Office (ONE) through long-term guaranteed purchase contracts. ONE remains the sole buyer of electricity in Morocco, purchasing power at pre-negotiated rates from these producers. Private small industries are allowed to produce up to 10 megawatts (MW) of electricity for their own use, and can sell what they do not use to ONE at pre-established rates.

13. The vast majority of Morocco's electricity is generated by fossil fuel combustion. Over half of the country's power is generated by a coal-fired plant run by Michigan-based CMS Energy; an additional 17 percent is generated in a combined-cycle plant using natural gas from Algeria, 15 percent is from fuel-oil, six percent from renewable energies (Ref A) and between five and ten percent is imported each year from Spain. Domestic electricity demand grew by 8.5 percent in 2005, the third year in a row of greater than seven percent growth.

EXPANDED LINK WITH EUROPE

14. Morocco and Spain are doubling their existing 700 MW

electrical interconnection - an undersea cable stretched across the 15-km wide Strait of Gibraltar - to a 1,400 MW capacity. The new link will be completed by the end of 2006. Morocco buys electricity from Spain only when the price in Spain falls below Morocco's own cost of production. The average price of imported power rises to nine cents per kilowatt hour (kWh) during peak hours and falls to as low as 3.6 cents/kWh during off-peak periods.

¶5. There is also a 1,300 MW power interconnection between Morocco and Algeria, though transactions between the two are limited to an as-needed basis and the balance at the end of the year is always zeroed out, so each country gets back what it has given to the other.

OPENING THE MARKET

¶6. The Ministry of Energy has drafted legislation that will allow private firms to produce and distribute electricity on an open market immediately upon entry into force of the new law. The draft law, based on the results of a study done in 2004 by McKinsey and Co., will begin the interagency clearance process in the coming weeks and then pass to parliament for consideration. Ministry of Energy Director for Electricity Abderrahim El Hafidi expects the law to be approved in 2006 and come into effect in 2007.

¶7. El Hafidi called the reform a "progressive liberalization" that will initially create two separate electricity markets - one that is liberalized immediately, allowing private firms to generate and sell power openly, and another, parallel market that continues to be regulated as now and in which ONE remains the sole purchaser. The parallel market scenario was developed so the government could continue to respect the long-term contracts signed with its contract producers like CMS. ONE will retain its role as sole purchaser in the regulated market segment until these generators' contracts expire.

¶8. Three major private generators are operating under long-term purchase contracts with ONE: CMS, the Compagnie Eolienne du Detroit, and the Entreprise d'Electricite de Tahaddart. Under the liberalization, these generators, which together account for three quarters of ONE's supply, will preserve their purchase contracts until the end of their previously agreed terms. When those contracts are completed they will enter the deregulated side of the market and sell their production at market rates.

¶9. The Ministry's objectives for the reform are to ensure price competitiveness within the sector, to further integrate the Moroccan electricity market with the more liberalized European market, and to attract investment in the areas of generation and distribution. An independent national electrical regulatory agency will be created, and ONE will eventually become a private entity that will compete with other purchasers.

COMMENT

¶10. The liberalization of Morocco's electricity sector is another important step in the GOM's economic reform process. Opening the generation sector to private companies and allowing the sale of power on an open market should help bring in the investment needed to keep up with a growth rate in demand that will double the country's need for power in ten years. Integration with the European market through an expanded link with Spain should also bring a competitive price advantage to consumers. Post will continue to monitor progress of the reforms and encourage the GOM to keep them on track. END COMMENT.